



QMDC comments on the Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013

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Submission to:

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Phone: 02 6277 3540
Fax: 02 6277 5719
economics.sen@aph.gov.au

Submitting organisation:

Chief Executive Officer
Queensland Murray-Darling Committee Inc.
PO Box 6243
Toowoomba QLD 4350
Phone: 07 4637 6276
Fax: 07 4632 8062
geoffp@qmdc.org.au

These comments are presented by the Chief Executive Officer, Geoff Penton, on behalf of the Queensland Murray-Darling Committee Inc. (QMDC). QMDC is a regional natural resource management (NRM) group that supports communities in the Queensland Murray-Darling Basin (QMDB) to sustainably manage their natural resources.

1.0 General comments

1.1 Whole life cycle analysis of agriculture

QMDC supports the intent of the *Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013* (the Bill) based on the recognition that some sections of the agricultural industry are currently operating on an unsustainable basis. In QMDC's opinion, these sectors are facing a systemic failure. QMDC therefore supports the reconstruction of the industry by collaboration with the industry, government, NRM bodies and other key stakeholders.

QMDC believes the stated objective of the proposed *Australian Reconstruction and Development Board* (the Board) should represent a whole life cycle analysis of agriculture and efforts needed to *optimise* economic growth by striving for a balance between a range of key factors such as soil health and land capability, water quality and availability, biodiversity and vegetation management and the economic drivers of food production.



These factors are now impacting on the costs of production, productivity improvements and sustainability decisions. These 'external' costs are now impacting on the bottom line.

If this is the given basis for the Board, a vision to reconstruct and develop the agriculture industry requires a serious commitment to achieve a balance between economic growth and maintenance of the integrity of Australia's natural resources whilst achieving sustainable food production.

QMDC is of the view that the inherent complexities of reconstructing the agriculture industry require a balance between economic incentives, education and regulatory options. The regulatory options need not be government or legislative. Planning, legislation, science, education and incentives for economic growth need to be integrated into a holistic framework. This would link economic growth strategies to natural resource management strategies aligning agriculture policy with other policy areas.

The Bill, in QMDC's opinion, can do this by empowering the Board to facilitate solutions, which build upon sustainable productivity and profitability, and which should then be able to be broadly applied. This QMDC believes is critical to reposition rural Australia so that it has a sound future and makes a renewed contribution to sustainable agriculture nationally and worldwide.

The Bill must therefore be carefully drafted to solidify long-term sustainability in Australian agriculture. Integral to the Bill's integrity is a universally agreed definition by which "sustainable agriculture" can be described and implemented.

1.2 Sustainable agriculture

QMDC asserts that such a definition needs to show clear parallels in the Bill to ecologically sustainable development (ESD) principles, and incorporate these into the responsibilities of the Australian Reconstruction and Development Board. Sustainable agriculture however will mean different things according to different interests. The Bill's use of the term must be clearly articulated.

Sections 1.3 to 1.5 of this submission attempt to illustrate tools QMDC has used with success to implement sustainable agriculture initiatives. We believe these tools would also be useful as part of the Board's own toolkit when designing a reconstruction and development policy.

1.3 Sub-catchment and landscape planning

QMDC has promoted sub-catchment and landscape planning for more than 10 years as it has a demonstrated impact on the adoption and implementation of improved natural resource management and agricultural production practices. State and Federal Government programmes have supported QMDC to accelerate the implementation of sub-catchment group plans.

Sub-catchment and landscape planning is a local community process allowing landholders to address land, water, vegetation, and other NRM issues, as well as cultural issues, at a sub-catchment scale.

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Working at a landscape (sub-catchment) scale allows coordination of community effort to resolve issues – many natural resource issues cannot be dealt with by only working on an individual property in isolation.

Achieving effective and long lasting solutions to NRM issues is the aim of the planning and implementation process, and it provides a sound resource base for productive and healthy properties.

Support through QMDC has included:

- contributions towards the employment of local Landcare group coordinators who assist landholder groups in the development, resourcing and implementation of their Plans
- the provision of planning, mapping, technical and other specialist support for the development and implementation of the Plans
- initiation and coordination of partnerships with State Government departments, industry organisations, research bodies and private companies to deliver political support, up-to-date science and technology
- significant investment of funds for landholders, local government, and other land managers to implement priority on-ground works which deliver more productive and sustainable farms and sub-catchments.

Participating in sub-catchment group activities can provide landholders with the evidence to gain recognition of their skills and knowledge through Agriculture, Conservation and Land Management, and Rural Business Management qualifications.

In QMDC's opinion sub-catchment plans developed with good science and up to date technology across all NRM areas should be considered as essential to the reconstruction and development of the industry.

Technical officers (from QMDC, local government, industry groups and State Government) can assist groups in gaining a broader understanding of ecological and catchment processes and the development of sub-catchment scale priorities for improved natural resource management and agricultural practices.

1.4 Landcare

The *Australian Framework for Landcare* and its associated *Action Plan* serve as guides to stakeholders and prospective partners, including industry, corporations, governments at all levels and regional and catchment organisations, as to how they can engage with Landcare groups in addressing sustainability issues. The Landcare community contributes significantly to raising the awareness and understanding of landscape function and the impact of inappropriate practices, and encourages the adoption of suitable methods of management to enhance the health of Australia's land, water and biodiversity.

QMDC suggests that with twenty years of knowledge, experience and achievements to build on and a range of current and emerging environmental challenges, the Landcare movement could provide valuable insight to the Board on which it could base the reconstruction and development policy on.

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1.5 Environmental management systems

Australia's National Framework for environmental management systems (EMS) in Agriculture (the Framework), was developed to provide a national context within which existing industry programs and growing interest in EMS could be “harnessed to best advantage to improve management and contribute to both market and environmental outcomes across industries and regions”.

The adoption of the EMS initiative has been identified in the Regional Natural Resource Management Plan as a key implementation mechanism for the achievement of sustainable natural resource management across the QMDB. This approach if implemented well can be an effective means of developing actions to manage landscapes.

In light of the Bill's proposed objectives and in order to progress sustainable agriculture, the Framework is relevant today for the agricultural industry, regardless of landholders' current level of engagement with environmental management issues.

QMDC asserts that by taking the Framework into account the Bill will be able to support individual landholders who wish to make a significant contribution to improving the sustainability of agricultural production through EMS at whatever level and pace is practical and appropriate for them. In this way, the Bill will help meet NRM and community expectations of environmental, social and economic outcomes and provide a systematic approach to identifying and managing environmental, legal and commercial risk within the industry.

The principles for ESD developed for Australia¹ also apply to EMS. The Bill could collectively help Australia to deliver on these ESD principles.

The intended collective outcome should be an agricultural industry in which all parties are confident that they are managing agricultural resources in a collaborative way that conducts business well.

1.6 Comprehensive land and water condition assessments needed to protect public investment

Crucial to the Bill's objectives is the need to attach “strings” to future public investment when providing “suitably tailored funds and capital arrangements that enable the sustainability and development of at-risk Australian agriculture and its associated industries and infrastructures”. QMDC assert that comprehensive land condition assessments are required for the purpose of establishing a prioritised list of actions, options and associated costs to address any potential public liability issues and bring the asset up to an acceptable standard to facilitate its future redevelopment, including:

- Identifying any immediate liability or legal issues and make recommendations as to any urgent action that should be undertaken;
- Survey, analyses and provide a register of environmental, economic and social risks and provide a development plan for their management;

¹ The goal of ESD is development that improves the total quality of life, both now and in the future, in a way that maintains the ecological processes upon which life depends.



- Detail and address any issues where further risks to the property or landholder or deterioration of the property will result in a significant increase in sustainable development costs and be detrimental to public investment;
- Prioritise further works which will minimise financial risk to potential redevelopment proponents and encourage better development outcomes; and
- Optimise the development return on the overall investment which includes the purchase price and the capital costs of undertaking actions identified above.

QMDC submit that it is in the public interest that agricultural assets (land, businesses, infrastructure) including the natural resources they depend upon must be sustained beyond the lifetime of the landholder in order to secure the long term productivity capabilities and the integrity of the resources relied upon or invested in to.

1.7 New financial products

QMDC supports a scrutiny of existing financial arrangements and the creation of new financial products and structures which are based on land condition assessments and which are more closely fitted to the current urgent needs of the rural sector as well as meeting future needs. Debt financing although it has been crucial in supporting the growth and development of the rural sector has in QMDC's opinion has not improved development as well as it could have. One reason for this is because interest rates pertaining to current rural lending products feature a substantial short term risk premium which conflicts with the longer term nature of farming. QMDC supports the call for a more extensive basis for securing agricultural capital in order to build the future resilience of the agriculture industry.



2.0 Specific comments and recommended changes

2.1 Clause 10BB Functions of Australian Reconstruction and Development Board

(1) The Australian Reconstruction and Development Board has power to determine the Bank's rural reconstruction and development policy.

(2) The Bank's *rural reconstruction and development policy* is its policy in relation to the following tasks:

(a) the task (the *facilitative task*) of researching, reporting on and helping to develop **in accordance with the principles of ecological sustainable development, and in a timely way**, the resilience, capabilities and ongoing financial viability of:

(i) Australia's food and natural fibre systems; and

(ii) any Australian industries or sectors in need of, or potentially in need of, reconstruction or development, **including industries or sectors in systems other than those referred to in subparagraph (i)** that the Australian Reconstruction and Development Board has identified as being at risk;

QMDC recommends including “the principles of ecological sustainable development” and their meaning interpreted in a glossary.

Ongoing research development and extension (R, D & E) is vital, and there is a need to ensure that resources like energy, water and soil are not only used efficiently and effectively but also within their capability and threshold limits. There has been significant agriculture research undertaken in the past. In our view, a deal of this research has been poorly directed to 'pet' interests of the researcher and/or the research organisation. The facilitative task needs to clearly explain the narrative around economic, environmental and social objectives for the policy. The R, D and E needs to be regionally relevant and capable of consolidating groups of organisations to:

1. Conceptualise the research topic within a wider application and undertaking the research
2. Develop the findings from the research into useful outcomes and not just a topic for the next round of research
3. Communicate the results of the research through extension strategies
4. Apply practice adoption strategies through a range of planning, education, incentive and self-regulatory initiatives.

This approach needs input from a range of organisations at a regional level with complementary skill sets. QMDC sees a role for regional bodies, in collaboration with other organisations, to provide support in the delivery of items 2, 3 and 4 above.



R, D and E is needed to inform national and regional policy and planning inconsistencies which lead to a lack of integration across catchments, landscapes, properties and businesses e.g. the management of wild dogs is viewed very differently by sheep farmers and farmers growing crops. The sheep farmers want them gone whereas farmers cropping want them to reduce kangaroos and pigs. The role and value of wild dogs in natural ecosystems and agricultural settings is not yet fully understood.

Where policy is being formulated and compromises are required the Reserve Bank (the Bank) and the Board must look at education, financial incentives and investment to improve productivity that are informed by regionally relevant research.

QMDC asserts clarification is required for clause 2 (a) (iii) are there specific criteria to determine which industries may receive help for it example does this for instance include the mining and resource industry, in which companies are predominately owned by foreign companies?

(b) the task (the *development task*) of contributing to the development of Australian agriculture, associated industries and infrastructure by:

(i) developing and offering financial arrangements **based on ecological sustainable development principles and land condition assessments**; and

(ii) reviewing financial arrangements;

QMDC recommends including “the principles of ecological sustainable development” and “land condition assessments”.

QMDC commends the Bill for recognising that contributions to development must also include *associated industries and infrastructure*. The Board needs to ensure that the definition of agri-business is broad, and includes all sectors with a considerable interest. These sectors include marketers, natural resource managers, end users such as restaurateurs, rural tourism bodies and rural planners as well as the more traditional agronomy and trading sectors. The business of agriculture is not the sole province of just one sector of agri-business.

(c) the task (the *reconstruction task*) of fairly, reasonably and effectively reducing or eliminating the debilitating impact of financial arrangements that, because of any of the following, threaten or reduce the ongoing viability or **sustainability** of enterprises in Australian agriculture or associated industries:

(i) the design of the financial arrangements;

(ii) inadequate evaluation of the financial arrangements by any of the parties to the arrangements;

(iii) market, organisational or informational failures;

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(iv) seasonal conditions, natural disasters or any other events beyond the control of the parties;

(v) **the condition of natural resource assets;**

(vi) **biosecurity risks; and**

(vii) any other adverse circumstances.

QMDC recommends including the word “sustainability” and articulate clearly what is meant by that term. Additionally “the condition of natural resource assets” and “biosecurity risks” need to be added to the above list.

In terms of *production costs*, the Board should consider externality costs associated with low productivity caused by, for example, soil and water resources in poor condition or weed and pest infestations. In this circumstance, prudent planning to maintain productive soil and water resources and integrate weed and pest management are essential under-lying principles.

The resolution of *competition for resources*, especially land and water, is fundamental to this being a successful Bill. The notion that the historic primary land use of a region should be sole basis for determining preferred future land uses is flawed. QMDC is of the view that all land use should be assessed according to established land capability/ land suitability systems and not on existing land use only.

QMDC supports the examination of the impacts of climate change when responding to the challenges posed by natural disasters, seasonal conditions and variability. The ability to confidently develop food supply strategies to meet a growing demand need to account for recognised climate scenarios.

Similarly, by undertaking market analysis of food demands, the Bill will enable the Board to fulfil its reconstruction task beyond just State supply capacities. The Board needs to be forever cognisant of what the changing demand requirements are for both domestic and overseas consumers. Financial arrangements, for example, will need to match commodity produced to commodity demanded within resource capability eg protein, rice and so on.

In relation to bio-security challenges, decision processes must examine severity and extent of these risks to both production systems and ecological systems when determining the level of investment support. Frontline services to boost biosecurity are needed at a regional, state and national scale.

(3) The Australian Reconstruction and Development Board has power to take whatever action is necessary, including applying capital of the Bank referred to in section 28 as it considers appropriate, to ensure that the Bank gives effect to the policy it determines.

(4) It is the duty of the Australian Reconstruction and Development Board to ensure, within the limits of its powers, that:

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(a) the Bank's rural reconstruction and development policy is directed to the greatest advantage of the people and industries of Australia; **and the protection and threshold limits of natural resource assets**

QMDC recommends including “the protection and threshold limits of natural resource assets” to the above clause.

Economic measures integral to “productive growth” or “market based” policy must also incorporate ecological values and asset management. Eligibility-based means tests on economic assets, for example, do not currently consider the long term state of the natural asset which underpins the production system. Reliance on market values to underpin asset value tends not to incorporate the condition of that asset. This includes the poor recognition of ecosystem service values which are included in any landscape but not often linked to land market values. The opportunity cost of maintaining these systems is often arbitrarily linked to lost production. Inappropriate risk management responses can lead to the degradation of these ecosystems. Stewardship services are not recognized in commodity markets for agricultural products to reward maintaining the ecological health of these systems.

A more strategic and environmentally responsive rural reconstruction and development policy relies on it incorporating NRM principles and key actions. Addressing agriculture production in terms of improving or maintaining resource condition and meeting aspirational targets for each State's natural resource assets will improve the capacity of regional communities to achieve aspirations encapsulated in associated legislation, policy and planning instruments especially regional NRM Plans. This level of responsiveness is clearly needed to direct policy for the greatest advantage of the people, industries and for the protection and viability of the country's natural resource assets.

QMDC recommends the inclusion of a threshold limit approach in the Bill. This approach would provide greater clarity and certainty because thresholds limits would help to define those natural resource assets identified as being both nationally and regionally at risk to the impacts caused by activities and infrastructure associated with agriculture.

Setting threshold limits for natural assets (water (surface and groundwater); vegetation and biodiversity; land and soils; air) will help farmers and the government to identify whether agriculture can operate without causing unacceptable impacts on those assets within the defined threshold limits.

Recognition, for example, of the likely cumulative impacts of large mining and gas industries on air, soil and water quality and how these impacts will be addressed is paramount. Rehabilitation of agricultural land post mining use is still a major challenge for Queensland. Port and rail expansion or new projects are currently developing around mining export needs not the needs of the agriculture sector. Difficulties exist in transporting agricultural produce due to the resource sectors ability to pay higher prices. The regional road network is deteriorating due to the effects of heavy vehicles supporting mining growth. The loss of skilled workers to the resources sector is adding to the decrease in productivity.

The Bill, in our opinion, should not remain silent on these issues, but recognise them and redraft the above clause to incorporate threshold limits as part of its administrative functions.

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This approach is fundamental as it will inform risk assessments that any potential investor will undertake before committing capital to agriculture in Australia.

(b) the powers of the Bank are exercised in a way that, in the Board's opinion, will best fulfil the facilitative task, the development task and the reconstruction task in ways that:

(i) are timely, equitable and transparent; and

(ii) ensure that appropriate means are used to assist sound investment and prudent financial decisions; and

(iii) ensure that investment and financial arrangements reasonably and realistically recognise the nature of likely yields, revenues, costs, uncertainties and risks over time and circumstances and the impact of such things on the ability of an obligated party to meet offered conditions; and

(iv) ensure that due regard is had to all relevant interests;

and

(v) ensure that persons being assisted by the reconstruction task assume responsibilities that are fair and reasonable, having regard to past efforts, but not so onerous as to threaten the persons' ongoing enterprise in a reconstructed form or industry exit on reasonable and accepted terms.

QMDC recommends that the exercising of the Bank's powers, need to "optimise" rather than to maximise production efforts.

QMDC submits that the Bank and Board should not apply 'maximisation' processes for economic growth as a primary objective. This we believe drives investment to perverse outcomes. For example maximising irrigated agriculture based on a fragile seasonal availability of irrigation water, fragile water balance systems within landscapes will lead to reducing long term productivity and higher externality costs. A better approach is to aim for the application of 'optimisation' principles to allocate resources to achieve sustainable production levels.

Ensuring that investment and financial arrangements reasonably and realistically recognise the nature of likely yields, revenues, costs, uncertainties and risks over time and circumstances requires Banks and the Board to manage current and future constraints and not put them into the 'too hard' basket.

QMDC is of the view that unless these constraints are managed, the Bill will not succeed. Competition for resources, the incremental loss of farming land to other land uses will inevitably reduce the area of land available for food production to sub-critical. In Queensland instead of doubling the value of agricultural production, the remaining area is likely to need productivity gains well in advance of its capabilities just to maintain the status quo.

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QMDC also submits that prime producing agricultural areas need to be designated and protected from competing land uses. Regional planning schemes provide a mechanism for the implementation of protection strategies, the Banks and Board need to urge state government to designate agricultural areas as agricultural areas of national and state significance. Current State policy initiatives are not providing the policy framework for future investment. To the contrary, the Queensland government's current approach allows for the incremental loss of land over time in prime cropping AND prime grazing lands.

Similarly, in terms of 'finite' resources, each state's natural resources are finite but capable of dramatic improvement given a balanced policy setting in terms of regulation, financial arrangements and incentives for agricultural system and practice change, research and development (R&D technical support and land tenure confidence. The provision of an integrated framework with these attributes provides the skeleton for growth in the future. There is untapped capacity if resources that are in poor condition are improved through better management.

Failure to address these constraints will de-base any thought of sustainable productivity growth. Productivity growth through increased targeted and regionally relevant R&D will provide the knowledge for improvement. Again, this investment is almost meaningless unless it is adopted by producers and it is for this reason that extension/ information networks need to be re-established across food producing regions, food producing industries and the value chains of the food producing sectors. QMDC believes the role of regionally located value adding and processing infrastructure is a critical factor in increasing the *value* of agricultural production across regions and states.

QMDC recommends that the Bill articulates how it will scale, measure and address public interests over private interest in accordance with clause 4(b)(iv).

(5) A House of the Parliament, a committee of a House, or a joint committee of both Houses may request the Board:

(a) to take a matter into account in performing the Board's functions; or

(b) to report to the House or committee on a matter relevant to the Board's functions.

2.2 Clause 16

At the end of subsection 11(1) Add: (c) the Australian Reconstruction and Development Board is to inform the Government, **from time to time**, of the Bank's rural reconstruction and development policy.

QMDC recommends keeping government informed at "all times" of the current policy and any changes it makes to the policy including reasons why those changes were made.



2.3 Clause 25NA Membership of Australian Reconstruction and Development Board

(1) The Australian Reconstruction and Development Board consists of the following members:

- (a) the Governor;
- (b) one representative of the Bank;
- (c) 8 other members with relevant rural, **NRM, Landcare, EMS** or agricultural experience.

(2) Among the members referred to in paragraph 25NA(1)(c) must be the following:

- (a) an economist;
- (b) an accountant;
- (c) a banker;
- (d) a representative of the States and Territories
- (e) a farmer,
- (f) a NRM Manager.**

QMDC recommend adding NRM representation to the Board's membership.

The network of NRM organisations across the state has a role to play in terms of the Board's functions and regional delivery. Regional NRM bodies all have a Plan to guide coordinated and holistic regional planning and on-ground action to improve the management and condition of the natural resources in their NRM Plan area. Regional NRM Plans are therefore integral to the environmental responsiveness of the Bill.

QMDC's and other NRM bodies' core business places a strong focus on sustainable agriculture. We are therefore committed to working with the Australian Government to assist the ongoing development and implementation of sustainable agriculture legislation, policy and strategies.

Regional NRM bodies have the ability to be in direct contact with a wide range of farming communities. Throughout the QMDB, for example, QMDC has a strong presence and capacity to work with farmers and graziers. QMDC is therefore very well placed to facilitate and deliver the necessary technical, management and policy support to improve the value of agriculture production within the region.